

March 31, 1999

## EXHIBITION PLACE

TO: The Board of Governors of Exhibition Place

FROM: Kathryn Reed Garrett  
Director of Business Development

SUBJECT: Paradise Complex Development Proposal

**It is recommended that the Board:**

- (1) approve entering into a three year lease with Paradise Entertainment Centre Complex ("Paradise Complex") for the Ontario Government Building ("OGB");
- (2) direct staff to negotiate the terms of an agreement, based upon the principals set out below and enclosed, and other such terms and conditions satisfactory to the Interim General Manager and City Solicitor; and
- (3) direct staff to conduct the appropriate due diligence on the Paradise Complex proposal, including a review of the financial assurances that are proposed by Paradise Complex.

### Background:

At its meeting of June 19, 1998, the Board approved and adopted the Program Development and Concept Plan which report identified strategic directions for the future development of Exhibition Place. Furthermore, at its workshop of January 26, 1999 the Board reconfirmed its commitment to securing destination-type tenants and activities that would extend the year-round use of the property.

The Business Development Committee of the Board met on September 16, 1997 to hear several development presentations for the OGB - one of which was from the Paradise Complex. As a result of that meeting and those presentations, the Committee at that time elected to pursue another proposal - that of Themeworld Entertainment Group Inc. Following exhaustive but unsuccessful negotiations with Themeworld Entertainment Group Inc., and upon the recommendation of the Business Development Committee, the Board at its meeting of April 1998 directed staff to terminate negotiations with Themeworld and to identify and contact other potential tenants for alternative proposals for the OGB, including those who had expressed an interest in September, 1997.

A revised proposal from the Paradise Complex was subsequently received and is now under consideration.

### **Discussion:**

The two proponents of the Paradise Complex are experienced food and beverage/banquet operators with more than thirty-six years experience in the Toronto market. Joseph Pandolfo, Executive Vice President of Paradise Banquet Halls located at 7551 and 7601 Jane Street, manages and operates a 165,000 sf banquet hall capable of accommodating 1800 guests that specializes in authentic cultural cuisine and special events, as well as outside catering functions; Carlo Parentela, President of the Le Jardin group of companies oversees the operation of Le Jardin Banquet Halls located at Highways 27 and 7, as well as exclusive off-site catering at the Iceland Hockey Arena (Mississauga), Hershey Centre (Mississauga), Hunters Glen Golf and Country Club, and currently hold franchise rights to Java Zone – a coffee kiosk retail concept. The Le Jardin group of companies is also a preferred caterer for the historic St. Lawrence Hall. Both operators are interested in expanding their operation into a high-profile downtown Toronto location and have expressed a renewed interest in the OGB.

The Paradise Complex proposal suggests two stages of operation:

- (i) Phase I proposes a three-year lease to operate an upscale entertainment complex in a portion of the OGB that would provide top 40's music as well as live entertainment Thursday-Saturday evenings from May to October throughout the Term of the Lease. Additionally, the facility would be used for special events and banquets.

The proponents are prepared to invest an initial \$375,000.00 in leasehold improvements that would be primarily cosmetic in nature, and refer to the restoration work that has been completed at the Pantages and Elgin Theatres, and the King Edward and Royal York Hotels as examples of the cosmetic work that would be completed.

- (ii) Phase II proposes a long-term lease to operate a full-scale year-round banquet facility in the balance of the building, including the courtyard and second level.

A proposed additional investment of \$1.13 million dollars would address cosmetic improvements to bring the balance of the OGB to par with Phase I, as well as provide for the installation of a complete HVAC system, complete banquet kitchen facilities, landscaping and the restoration of the courtyard.

Staff have had several meetings with the proponents to discuss terms for Phase I only and this report is recommending terms and conditions for moving forward with Phase I at this time with no obligations with respect to Phase II. The terms and conditions are as follows:

- a) Term:

The Board would enter into a net lease with Paradise Complex, and a company to be named as indemnifier (the Indemnifier) for a period of three years. The Lease would commence at the beginning of the Construction Period which is targeted for May 12, 1999.

b) Due Diligence:

Following execution of the Letter Agreement, a thirty (30) day period of due diligence would commence during which the Board would satisfy itself on the expertise and credit worthiness of Paradise Complex and the indemnifiers; the availability of sufficient financing, requisite licenses and franchise rights; the availability of consents such as the consent of the Toronto Historical Board. Paradise Complex, during this time, would complete its investigation as to title; soil conditions and building conditions; zoning and other land restrictions; terms of existing agreements; etc. In the event that either the Board or Paradise Complex have not satisfied themselves during this Due Diligence period, either party may terminate the Agreement at no cost to the other.

c) Construction Period:

During the Construction Period, Paradise Complex must (i) ensure that construction proceeds in accordance with the schedule; (ii) minimize disruption to the balance of the Exhibition Place grounds; (iii) ensure the continuity of the Board's operation; and, (iv) commence a marketing advertising program that has been finalized in consultation with the Board.

d) Lease:

The lease would commence at the beginning of the Construction Period and would operate as an entirely net lease with full responsibility for all on-going expenses and obligations of every nature and kind pertaining to the OGB to be with Paradise, as tenant, including but not limited to obtaining and maintaining all required insurance and all property and real taxes.

e) Leasehold Improvements:

Paradise Complex will, at its sole expense, be responsible for the installation of all leasehold improvements. Such improvements as have been outlined in the proposal include repairs/restoration and/or modifications to custom moldings and lighting fixtures; specialized painting techniques and wall treatments; mosaic and carpeted floor treatments; renovations to existing washroom facilities; installation of limited kitchen facilities suitable for the preparation of finger-type food, and decorative elements such as statues, pillars and custom-made props. Such leasehold improvements are estimated at approximately \$375,000.00. Paradise Complex will, prior to making any leasehold improvements, seek the written permission of the Interim General Manager of Exhibition Place which approval will not be unreasonably withheld or delayed, but will be subject to consideration of the impact of such improvements on the historical nature of the OGB. All leasehold improvements undertaken by Paradise Complex will be in accordance and comply with the provisions of any federal, provincial or municipal law, by-law or

regulation including but limited to the Ontario Heritage Act. Paradise Complex will complete all leasehold improvements and commence operation of the Entertainment Complex, subject only to delays caused by "force majeure" no later than June 1, 1999. All leasehold improvements will remain the property of the Board except for any (trade) chattels and fixtures which will remain the property of Paradise Complex and removed at the end of the Term.

f) Deposit:

Upon execution of a Term Letter Agreement, Paradise Complex will deliver a deposit in the amount of \$10,000.00 Dollars which will be non-refundable and applied against the Board's costs if there is no election to terminate this Agreement after the Due Diligence period.

g) Rent:

Based on an area of approximately 24,000 sf of ground space only, which is to be confirmed by an architect's certificate, rental payments will be as follows:

- i. Base Rent of \$15,000.00 plus GST of 7% per year for Year 1 of the Term, payable in three equal installments of \$5,000.00 each plus GST and due on the first day of July, August, and September, 1999; and, 6% of gross sales in excess of \$500,000. per annum;
- ii. Base Rent \$40,000.00 plus GST of 7% per year for Years 2 and 3 of the Term, payable in five equal installments of \$8,000.00 each plus GST and due on the first day of May, June, July, August and September 2000 and 2001; and, 6% of gross sales in excess of \$750,000. per annum;
- iii. Percentage Rent for Special Event & Banquet sales in the amount of 25% of gross sales, calculated on a contract-by-contract basis and due immediately upon execution of the contract.

h) Permitted Uses/Restrictions/Exclusive Agreements:

During the Term, Paradise Complex will have the exclusive right to use the OGB as an entertainment centre that provides for pre-recorded and live music and a limited finger food menu; and for Special Events and Banquet activities upon prior written approval of the Board. Paradise Complex shall not use the OGB for any other purpose than that specified in this Agreement, nor for the use of themed dinner theatre; trade and consumer shows; sporting events; and a casino (save and except for a casino that is associated with the CNEA).

Paradise Complex may not erect any signs on or around the OGB or anywhere upon the grounds of Exhibition Place without prior written approval of the Board, acting reasonably, which signs are to comply with applicable by-law and policies that are compatible with the grounds of Exhibition Place. The name of the project must be in compliance with applicable Board and City of Toronto by-laws and must receive approval of the Board.

i) Special Conditions:

- (i) As indicated in their proposal, Paradise shall place a priority on the hiring and training of local residents for its operations;
- (ii) During the CNE, Paradise Complex shall provide at no cost to the CNEA facilities within the OGB suitable for the execution of a Casino, and shall make reasonable arrangements for access to same for set-up and tear-down prior and following the Casino. Paradise Complex shall be responsible for the food and beverage service to same, and all revenues from food and beverage sales during the CNE Casino will be retained by Paradise Complex;
- (iii) Paradise Complex shall remit an Annual Gross Sales Report to the Board no less than 90 days following each respective year-end, together with any percentage rent that is due and payable;
- (iv) A quantity of 50 parking passes will be made available for the use of employees of Paradise Complex. Patrons of the Paradise Complex will pay posted parking rates that are consistent with other site parking rates as are determined by the Board. A discounted parking rate for Patrons of Special Events and Banquets that is consistent with the posted rate for Exhibitors will apply, except during peak times;
- (v) The Paradise Complex agrees to abide by all the terms and conditions of any binding labour agreements, particularly with reference to but not limited to entertainment and special event and banquet operations. The Board will supply Paradise Complex with copies of all relevant agreements on a regular basis;
- (vi) The Paradise Complex and the Board will agree to an off-season preferred rental rate for the premises for the purpose of special events during the period of non-use. The Board retains first right of refusal for any potential use that exceeds the intent of the Agreement;
- (vii) The Paradise Complex acknowledges that there will be limited access to the grounds during designated Special Events. These events include but are not limited to the Molson Indy, the CNE, and Chin Picnic.

Benefits of the Project

There will be several benefits resulting from the completion of Phase I of this development. First, the proponents are well known and well established in the GTA. This proposal will generate activity in the OGB during the important peak season where it has been, for the most part, vacant in the past. And, it will attract destination-type visitors to the grounds while establishing the proponents in a new downtown location. This will be essential if the Board and Paradise Complex elect to move into Phase II of the proposal. Lastly, Phase I provides for some much-needed cosmetic improvements to the OGB.

In addition, unlike the previous proposes considered by the Board for the OGB (the Themeworld proposal) this project would not be in conflict with the exclusivity provision in the lease with Medieval Times. As the Board is aware, the lease between the Board and Medieval Times provides Medieval Times with the exclusive rights on the grounds to operate a "dinner theatre".

The Paradise Complex proposal will be strictly a music entertainment venue with limited food and beverage service only with the "uses" clause in the Paradise Complex lease drafted accordingly by the City Solicitor.

The table below illustrates the total proposed revenue stream to the Board during Phase I, based on Paradise Complex's projections and some estimation of additional revenue from Special Events and Banquets:

	Year 1	Year 2	Year 3	Ttl/Average
Base Rent	\$15,000.	\$40,000.	\$40,000.	\$95,000.
Percentage Rent	0.	0.	9,000.	9,000.
Parking Revenues (@\$8.00/stall)	\$59,000.	\$71,800.	\$86,160.	\$216,960.
<b>Sub-total</b>	<b>\$74,000.</b>	<b>\$111,800.</b>	<b>\$135,160.</b>	<b>\$320,960.</b>
<b>Value psf</b>	<b>\$3.08</b>	<b>\$4.66</b>	<b>\$5.63</b>	<b>\$13.37</b>
<b>Average Value/Term</b>				<b>\$4.46/psf</b>
Capital Improvements	\$125,000.	\$125,000.	\$125,000.	\$375,000.
% Rent for Special Event/Banquets (est)	\$12,500.	\$25,000.	\$37,500.	\$75,000.
Additional Parking (est)(@\$6.50/stall)	\$7,300.	\$14,600.	\$21,900.	\$43,800.
<b>Total</b>	<b>\$218,800</b>	<b>\$276,400.</b>	<b>\$319,560.</b>	<b>\$805,760.</b>
<b>Value psf</b>	<b>\$9.12</b>	<b>\$11.52</b>	<b>\$13.32</b>	<b>\$33.96</b>
<b>Average Value/Term</b>				<b>\$11.32/psf</b>

Conclusion:

This report proposes that the Board enter into a short-term Agreement with Paradise complex for the OGB on the terms and conditions outlined in this report.

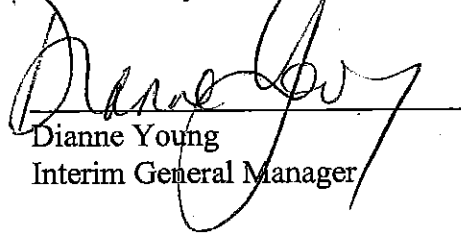
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Dianne Young

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